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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 6598
INFO RUEHFK/AMCONSUL FUKUOKA 8135
RUEHNN/AMCONSUL NAHA 0690
RUEHOK/AMCONSUL OSAKA KOBE 1490
RUEHKSO/AMCONSUL SAPPORO 9223

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 005450

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E.O. 12958: DECL: 09/20/2016

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SUBJECT: TAKENAKA RESIGNATION UNSURPRISING

Classified By: Ambassador J. Thomas Schieffer. For reasons 1.4 (b,d)

¶1. (C) Summary. On September 15 Heizo Takenaka, well known economist, reluctant politician, and symbol of Prime Minister Koizumi's reform agenda, announced that he would give up his Diet seat on September 26. Faced with the imminent retirement of Koizumi, his biggest supporter, Takenaka was not expected to remain in the Cabinet and appears to have decided that a Diet seat was not a sufficient incentive to stay, especially because politicians he had clashed with over banking reform may be part of the new administration. One contact told the Embassy the "real" reason for Takenaka's resignation is that a new story about his financial improprieties came out this week in one of Japan's weeklies; financial scandals have dogged Takenaka for the last five years. Nonetheless, we expect Takenaka may retain some policy influence as he returns to academia and possibly starts a think tank of his own. Under Election Law, Takenaka's vacated proportional representation seat will be filled by Shinobu Kandori, formerly a female professional wrestler. End summary.

Replaced by his Detractors?

¶2. (C) Takenaka has been a driving force behind Koizumi's push to reform the economy. An academic who came to political prominence when Koizumi appointed him Minister of State for Economic and Fiscal Policy in 2001, Takenaka is credited with accelerating the disposition of bad loans left over from the bursting of Japan's bubble economy. His hardball approach using massive infusions of taxpayer money - and the accompanying threat of nationalization - to pressure big banks into fixing their balance sheets won him the enmity of politicians such as Kaoru Yosano and Hakuo Yanagisawa, who believed that a soft landing for the banks was the better choice. Takenaka was also instrumental in enacting legislation to privatize the postal services, helping Koizumi pull off one of his most important political achievements. This fight, which played out spectacularly last fall in Koizumi's landslide Lower House election victory, also won Takenaka new enemies. Rumors that Takenaka's replacement in the Abe Cabinet might be Yosano or Yanagisawa may have helped convince Takenaka that his time was up.

Reform Path Unclear

¶3. (C) It is unlikely that Takenaka's exit per se heralds the end of Koizumi's reforms, but it may be associated with a mild slowing. This is not surprising given that the new Prime Minister likely will have one eye on the Upper House election in Summer 2007 and so will be reluctant to pursue any new economic reform too vigorously. Embassy contacts expect that Takenaka may still advise on the postal

privatization process from a new think tank and note he had not been expected to continue in the Cabinet after Koizumi resigned.

Plagued by Scandal

14. (C) Takenaka's term has been dogged by scandal with new allegations about political donations surfacing just last week. He reportedly received political donations amounting to close to 12 million yen at several seminar/cocktail parties last summer, but he only formally notified receipts of 1.52 million yen. Takenaka also has been accused of switching his residential status between Japan and the United States in order to avoid income tax.

Road to the Upper House

15. (C) Criticism that Takenaka had too much power for a non-politician led Koizumi to ask Takenaka to run for an Upper House seat in the summer of 2004. Takenaka received the greatest number of votes of any Liberal Democratic Party (LDP) candidate in that proportional race and successfully extinguished criticism that he was not a representative of the people. Takenaka was elected to a six year term but with his departure will serve only two years. He will be replaced by a female wrestler named Shinobu Kandori, who has little political experience but has been active in social welfare. Charismatic and popular, she is 41 years old and widely known as "Mister Female Professional Wrestler." Kandori has already said she plans to take Takenaka's seat as well as run in the Upper House election in 2007.

Comment

16. (C) Takenaka's resignation is not surprising given his

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close relationship with Koizumi. His decision probably derives from a sense that he has done as much as he can in active politics and from a realization that the new administration is unlikely to include him. That his resignation coincides with new allegations of financial scandal indicates he may have decided he is unable or unwilling to fight this one politically, but it probably will not effect his academic career. Takenaka outlasted all of his political rivals while a member of Koizumi's Cabinet and we expect him to continue to be influential in the economic policy arena.
SCHIEFFER